

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-03-1
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ORDER APPROVING STIPULATION AND AGREEMENT

(Issued October 17, 2003)

INTRODUCTION AND PROCEDURAL HISTORY

On May 27, 2003, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles for a proposed 310 megawatt (MW) wind-powered generating project. MidAmerican filed revisions to the application on June 2, 2003. MidAmerican plans a project consisting of 173 to 207 wind turbine generators with a maximum nameplate generating capacity of 1.5 to 1.8 MW each. The wind generation will likely be installed at more than one location, with each location probably having between 80 MW and 150 MW of capacity. This is the fourth ratemaking principles proceeding, but the first involving a wind-powered facility. The other three proceedings were for gas or coal-fired generation.

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2003). Section 476.53 was enacted during the 2001 legislative session as part of House File 577. This section provides that when defined new electric

generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates. Alternate energy production facilities, such as the wind project proposed by MidAmerican, were added to the list of eligible facilities for ratemaking principles by House File 391, which was enacted during the 2003 legislative session. Section 476.53(1) states that the General Assembly's intent in enacting ratemaking principles legislation is to "attract the development of electric power generating and transmission facilities within the state . . ."

As part of the ratemaking principles application, MidAmerican filed a stipulation and agreement signed by MidAmerican, Deere & Company, the International Brotherhood of Electrical Workers State Conference, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), and Local 109, International Brotherhood of Electrical Workers. In addition to requesting approval of ratemaking principles applicable to the wind project, the stipulation and agreement provide that MidAmerican commits not to seek a general increase in Iowa electric revenues that would become effective before January 1, 2011, unless its return on equity falls below 10 percent. A revenue sharing mechanism is also contained in the stipulation and agreement. Ag Processing Inc. made a filing indicating it would not be intervening in the proceeding, but reserved its option of intervening in any rate case MidAmerican filed pursuant to Article II, Term 3(I) of the

stipulation and agreement. This provision allows MidAmerican to file a rate case for an increase in rates if its return on equity falls below 10 percent.

Interstate Power and Light Company intervened in the proceeding, but indicated it does not object to the proposed stipulation and agreement. There are no other intervenors.

The Board issued a procedural schedule on June 27, 2003. No prefiled testimony or exhibits opposed to the stipulation and agreement were filed. On July 28, 2003, MidAmerican filed a motion to cancel the evidentiary hearing scheduled for September 4, 2003. The Board issued an order on August 28, 2003, suspending the hearing. In that order, the Board required MidAmerican to respond to a series of questions and provide additional information. Consumer Advocate was required to respond to one question. The Board said that it would determine whether to reschedule the hearing or proceed to ruling on the merits after reviewing MidAmerican's responses. MidAmerican and Consumer Advocate filed their respective responses on September 5, 2003. After reviewing the responses, the Board has determined a hearing is not necessary and will rule on the merits of the stipulation and agreement in this order.

Although Iowa Code § 476.53(3)"d" allows the ratemaking principles proceeding to be combined with a proceeding for issuance of a generation certificate under Iowa Code chapter 476A, the two proceedings were not combined here. In fact, MidAmerican is not required to obtain a generation certificate for the project

because no more than 25 MW of generating capacity will be located on any single collector or "gathering" line. See, MidAmerican Energy Company, "Declaratory Order," Docket No. DRU-03-3 (6/6/03).

The terms and conditions of the proposed stipulation and agreement are intertwined with the terms and conditions of a settlement agreement approved by the Board on May 29, 2003, in Docket No. RPU-02-10. The settlement approved in Docket No. RPU-02-10 dealt with the ratemaking principles for another MidAmerican generating plant, Council Bluffs Unit 4 (CB 4), a coal facility. If MidAmerican determines not to construct the wind facilities that are the subject of the present stipulation and agreement for any other reason than those specified in Article VIII of the stipulation, Consumer Advocate may terminate the CB 4 ratemaking principles settlement. If Consumer Advocate terminates the CB 4 settlement, MidAmerican could refile a ratemaking principles application for CB 4.

CONDITIONS PRECEDENT

Before determining the applicable ratemaking principles, the Board must make two findings pursuant to Iowa Code § 476.53(3)"c." These are conditions precedent to a determination of ratemaking principles, because if the Board cannot make these findings, the utility cannot receive ratemaking principles. First, the Board must determine that the public utility has in effect a Board-approved energy efficiency plan. Second, the utility must demonstrate that it has considered other sources for long-

term supply and that the facility is reasonable when compared to other feasible alternative sources of supply.

MidAmerican has in effect a Board-approved energy efficiency plan. MidAmerican witness Stevens provided prefiled testimony regarding MidAmerican's energy efficiency plan. MidAmerican received approval of its initial energy efficiency plan on June 28, 1996. The plan was extended on July 27, 2001. (Stevens, pp. 23-24). A new MidAmerican energy efficiency plan, identified as Docket No. EEP-03-1, was approved on July 18, 2003.

MidAmerican also demonstrated in the prefiled testimony of witnesses Gale (pp. 3-13), Alexander (pp. 3-4), Stevens (pp. 10-14; 16-23), and the responses to questions 1 through 8 contained in the Board's August 28, 2003, order that it had considered other sources for long-term electric supply and that the proposed wind project is reasonable when compared to other feasible alternative sources of supply. The statute does not require that the wind project be the least-cost alternative, but a reasonable alternative, to other sources of supply. The wind project adds flexibility to MidAmerican's generation portfolio, particularly during off-peak hours, promotes Governor Vilsack's announced goal of having 1,000 MW of renewable resources in Iowa, and furthers the policy goal contained in Iowa Code § 476.41.

SUMMARY OF SETTLEMENT

The stipulation and agreement provides for a return on equity of 12.2 percent on the portion of the wind project included in Iowa electric rate base. MidAmerican

would continue to recover energy efficiency expenditures, alternate energy production purchases, and alternate energy revolving loan fund payments through mechanisms currently in place.

The stipulation and agreement contains a \$323 million cost cap, with an additional \$12 million in associated transmission costs, without the need for MidAmerican to establish the prudence or reasonableness of the expenditures. MidAmerican would be required to establish the prudence and reasonableness of any costs in excess of these amounts. The depreciation life of the wind facilities for ratemaking purposes is 20 years.

In addition to ratemaking principles specifically addressing the wind project, the stipulation and agreement continues the revenue freeze and revenue sharing settlement approved in MidAmerican's most recent rate case, Docket Nos. RPU-01-3 and RPU-01-5. MidAmerican commits not to file for a general revenue increase that will be effective prior to January 1, 2011, unless its return on equity falls below 10 percent. The customers' portion of the revenue sharing calculation will continue to be used to offset allowance for funds used during construction (AFUDC) on MidAmerican's new gas, coal, and wind facilities. If AFUDC is covered, the excess will be used to offset depreciation on these facilities. If depreciation is fully offset, any excess will be returned to ratepayers.

The Iowa portion of any revenues from the sale of renewable energy credits or carbon dioxide credits will be included in the revenue sharing calculations. The Iowa portion of wholesale sales will also be included in these calculations.

In addition to the 10 percent return on equity threshold, there is another limited exception to the revenue freeze. If the Board issues an order authorizing more than \$325 million to be spent on environmental improvements pursuant to Iowa Code § 476.6(25), MidAmerican may file a request with the Board seeking recovery of amounts in excess of \$325 million. MidAmerican currently anticipates spending no more than \$260 million on such improvements through January 1, 2011.

It is important to note that the stipulation and settlement constitute a revenue freeze, not a rate freeze. The settlement does not prohibit revenue neutral changes to minimize or reduce zonal rate disparities between MidAmerican's pricing zones.

DISCUSSION

No objections to the proposed stipulation and agreement were filed. Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest."

The ratemaking principles contained in the settlement generally track principles that have been awarded in other ratemaking principles dockets. The 12.2 percent return on equity agreed to by the parties appears to be within the zone of reasonableness given the risks associated with new generation, the intent of

section 476.53, and the fact that this return will prevail for the regulated life of the wind facilities.

The other ratemaking principles associated specifically with the wind project, including the cost cap and depreciation life, also appear reasonable. The stipulation and agreement, however, also contains terms other than ratemaking principles for the proposed wind project and these must be addressed.

The stipulation and agreement extend the settlement in Docket Nos. RPU-01-3 and RPU-01-5 from December 31, 2005, to December 31, 2010, a five-year extension. This will provide a predictable revenue stream for MidAmerican and provide customers some price surety, absent revenue neutral changes in rate design. The revenue stability for MidAmerican should encourage the efficient operation of its revenue producing assets.

While a revenue freeze can encourage the deferral of maintenance and capital expenditure, MidAmerican has continued to invest during its current revenue freeze and the stipulation and agreement provide a regulatory out if return on equity falls below 10 percent. If MidAmerican effectively maintains its generating and transmission assets and appropriately administers wholesale sales, both MidAmerican and its customers will benefit through the continuation of the revenue sharing mechanism because some of the costs of the capital investments will be paid. Small changes to the revenue sharing mechanism are made, including a reduction after 2005 in the threshold level for sharing from 12 percent to 11.75 percent.

The stipulation and agreement do not prohibit revenue neutral changes in rate design. Article II, Term 3(m) provides:

Nothing in this Stipulation shall prohibit the Board from approving changes in electric rates designed to minimize or eliminate rate disparities based on customer location or rate disparities not justified by the costs of providing utility service or other important public policy considerations; provided that any such changes in rates shall be designed in the aggregate to be revenue neutral to MEC.

In response to question 51 of the Board's August 28, 2003, order, MidAmerican said it intended to file tariff changes in August 2004, October 2006, and October 2007, primarily designed to eliminate residential base rate tariff differences between its South pricing zone (former Iowa Power and Light Company service territory) and East pricing zone (former Iowa-Illinois Gas and Electric service territory). The rate changes would be made by reducing South zone residential rates, financed by the scheduled elimination of the Cooper Nuclear station tracker clause and anticipated cost reductions in the AEP clause. These two zones would still have higher residential rates than the North zone (former Iowa Public Service Company service territory). MidAmerican does not plan at this time to address price disparities in the three pricing zones among other customer classes.

In the order approving settlement issued in Docket Nos. RPU-01-3 and RPU-01-5, issued December 21, 2001, the Board noted that rate zone disparities could be addressed in a revenue neutral rate design case. The Board said at pages 10 and 11:

[I]f differences in the pricing zones are due to historical and geographic issues, not cost of service issues, those disparities need to be addressed. The Board encourages all parties to this proceeding to begin collaboration on rate design issues so that a proposal may be filed with the Board for all to consider.

The Board is not aware that any collaborative sessions took place, but continues to encourage MidAmerican to begin such discussions and propose additional measures to reduce zonal rate disparities.

While the stipulation and agreement may not decide each issue the way the Board would in a contested hearing, the Board, viewing the stipulation and agreement as a whole, will find it to be reasonable, in the public interest, and not contrary to any law. The stipulation and agreement will facilitate the building of additional renewable energy to help meet the Governor's goal, expand the diversity of Iowa's generation resources, and further the policy goal contained in Iowa Code § 476.41.

FINDINGS OF FACT

1. It is reasonable to find that MidAmerican has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(19).
2. It is reasonable to find that MidAmerican considered other long-term sources of electric supply and the wind facilities are reasonable when compared to other feasible alternative sources of supply.
3. The ratemaking principles contained in the stipulation and agreement are reasonable.

4. The stipulation and agreement are reasonable in light of the whole record, consistent with law, and in the public interest.

CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2003).

ORDERING CLAUSE

IT IS THEREFORE ORDERED:

The stipulation and agreement filed in Docket No. RPU-03-1 on May 27, 2003, is approved.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Sharon Mayer
Executive Secretary, Assistant to

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 17th day of October, 2003.